Illinois Public Interest Research Group
180 W. Washington Blvd., Ste. 500, Chicago, IL 60602 312-364-0096
www.illinoispirg.org illinoispirg@pirg.org

Comments on the Implementation of the Governor's Sustainable Energy Plan for Illinois
Illinois Public Interest Research Group

April 27, 2005

Illinois PIRG would like to thank the Illinois Commerce Commission for allowing us the opportunity to comment on the implementation strategies proposed to meet the goals contained in the Governor's Sustainable Energy Plan. Our comments are limited to the renewable portfolio standard (RPS). We applaud the commission for its careful work to identify the best way to design a program that maximizes the consumer, environmental and economic development benefits of investment in homegrown, clean, renewable power in Illinois.

Having attended the workshop presentations, and having read the submissions of the utilities and other parties, we are compelled to comment on the suggestion by some parties that the benefits of the RPS can be achieved through a voluntary program. Extensive experience in other states demonstrates that a key element of successful programs is the mandatory participation of all retail electric providers, and clear, credible and effective enforcement of the standards. It is evident from the Governor's February 11, 2005 plan that he envisioned an enforceable program with participation by all and penalties for noncompliance. We believe that the success of the program depends on adherence to this aspect of the Governor's vision. We comment below on this and other design elements of the RPS.

Overview

1. The goals, targets and timeline of the Governor's Sustainable Energy Plan are laudable and achievable.
2. Experience in other states demonstrates that mandatory standards with clear and enforceable targets are the key to the attainment of the program goals.
3. Consumers deserve a program that will deliver the benefits, not one that simply minimizes up-front costs at the expense of the program goals.
4. Program design elements that have contributed to the success of the RPS in other states include:
    a. Broad applicability to all retail electric suppliers;
    b. Specific and stable eligibility requirements;
    c. Long-term contracts;
    d. Cost recovery for prudently incurred costs;
    e. Credible and effective enforcement.

1. The goals of the Governor's Sustainable Energy Plan are laudable and achievable.

Illinois PIRG strongly supports the renewable energy standard proposed by Governor Blagojevich, and urges the Illinois Commerce Commission to act as expeditiously as possible to initiate formal proceedings to adopt the standard. Specifically, Illinois PIRG supports a clean, renewable energy standard that:

- Requires electricity providers to ensure that 8% of their electricity sold in Illinois is generated using clean, renewable technologies, as defined by Illinois statute, by 2012;
- Requires at least three-quarters of the renewable energy procured to meet the standard to be wind-generated;
- Requires that the energy procured to meet the standard be generated by new renewable energy facilities in or near Illinois;
- Ensures that these standards are mandatory and enforceable, through the imposition of a penalty for non-compliance that is at least double the cost of acquiring the energy to comply with the standard.

A well-designed program will be able to deliver enough renewable energy into the Illinois energy market to meet the 2006 goals. For example, in Texas more than 900 MW of wind energy was installed in 2001, a single year. The installation of 900 MW of wind in Illinois between now and the end of 2006 would provide roughly 2.6 million megawatt hours of electricity annually, approximately 2% of the electricity consumed in Illinois in 2003. The availability of photovoltaic, landfill gas and clean biomass resources will allow for comfortably meeting the goal, and potentially over-compliance with the short term renewable standard of 2% by 2006, even if eligibility were to be limited to new resources, in-state generation, and without the benefit of purchasing renewable energy credits to meet the standard.

2. Experience in other states demonstrates that mandatory standards with clear and enforceable targets are the key to the attainment of the program goals.

The Governor's February 17 "Illinois Sustainable Energy Plan" leaves little room for doubting that the program being proposed would include mandatory standards applicable to both electric utilities and alternative retail suppliers, enforceable through a penalty for non-compliance. This element of the Governor's plan is key to its success, as the experience of other states has demonstrated.

We are fortunate that the experience of these programs has been evaluated, most recently in March of 2004, by the Ernest Orlando Lawrence Berkeley National Laboratory, under contract with the Department of Energy.[1] This study assessed the experience of RPS implementation in thirteen states, and summarized a set of design principles and best practices to help other states design programs to achieve success. It also listed design

[1]Wiser, R., Porter, K., and Grace, R., Evaluating Experience with the Renewables Portfolio Standards in the United States. LBNL-54439, March 2004.

pitfalls that contribute to less-than-desired performance and achievement of the program goals.

The Lawrence Berkeley Lab study concluded that certainty about the program's applicability over the long-term, and consistent and credible enforcement mechanisms were essential elements contributing to the achievements of the programs, and in states where enforcement and applicability certainty were lacking, the program suffered as a result. The program design goal should be to minimize the extent to which retail electricity providers, renewable energy developers or those financing the projects have any doubt about the duration of the program, the levels and timing of the standards, the requirement to participate, the penalty for noncompliance, or the resource eligibility rules.

> **"An effective RPS will be enforceable, ensuring that the policy's renewable energy targets and broader goals are achieved. Best practices for implementing this principle ensure that . . . Clear rules for enforcement in cases of non-compliance are established, thereby providing confidence to renewable energy developers that electricity suppliers will make their required purchases . . ."[2]**

Leaving the decision about whether to participate in the RPS up to the retail electric companies throws a large amount of uncertainty into the Illinois renewable energy marketplace. Leaving the door open for an existing or future electric provider to choose not to participate casts doubt on the amount of renewable energy that will be needed for the program's participants, depending upon the load served by participating and non-participating entities.

3. Consumers deserve a program that will deliver the benefits, not one that simply minimizes up-front costs at the expense of the program goals.

To minimize the short-term rate impact of the RPS, Illinois PIRG supports every effort to ensure that above-market energy costs passed through to consumers as part of the RPS are prudently incurred, and that the rules for bidding for the energy contracts are designed to ensure that the least-cost eligible bidders are chosen.

However, we would like to underscore the fact that there are considerable consumer benefits to ensuring that the RPS goals are met. Consumers are not best served by a program designed to minimize up-front costs if the result is to sacrifice the long-term consumer benefits that come from hitting the goals of the RPS.

Developing 3000-4000 MW of new wind energy in our state will promote reliability and prevent costly and dangerous blackouts. Reliance on wind power, where there are no ongoing fuel costs, will reduce the cost of electricity over the long term. To the extent that wind power built to meet the Illinois RPS displaces natural gas generation thereby reducing natural gas demand, consumers will see a benefit on their heating and cooking

[2] Wiser et al, at 28.

gas bills. This investment also acts as a hedge against future increases in electric generation from coal plants that is likely to occur within the next decade as a result of the imposition of a carbon cap or carbon tax, or other environmental regulations.

These benefits have monetary value to utilities and to ratepayers. In one study, the Lawrence Berkeley Lab quantified the per-kwh value of the natural gas price hedge, and concluded that the value is approximately .5 cents per kwh. The commission should ensure that this value is credited as a benefit to fixed price renewable energy investments.[3] Moreover, the commission should begin the process of quantifying the monetary value of the other aforementioned benefits, including the value of a hedge against future carbon caps or carbon taxes, and ensure that these values are considered in the cost calculations when power purchase prices are compared.

4. Program design elements that have contributed to the success of the RPS in other states include:

Again, referring to the Lawrence Berkeley Lab evaluation of 13 state renewable energy standards,[4] several design elements have emerged as important to the success of the program.

a. Broad applicability to all retail electric suppliers: All retail electric suppliers should be included in the obligation to derive a minimum percentage of their energy sales from clean, renewable resources.

b. Specific and stable eligibility requirements: Any ambiguity in the definitions of qualifying renewable resources should be clarified. In particular, the definition of qualifying biomass resources may need clarification to eliminate confusion and foster participation.

c. Long-term contracts: As others have stated, the requirement that retail electric companies enter into long-term power purchase contracts for the renewable energy needed to meet the standard are essential to the programs success. Long-term contracts will attract financing for wind projects in Illinois. For this reason, we agree with those who have suggested that 10-year contracts may not be sufficiently long-term, and a better approach may be to require 15 or 20-year contracts.

d. Credible and effective enforcement: Penalties for noncompliance should be set at a stable and predicable level, and at a level that is sufficient to provide a strong incentive to comply. Texas, which set a noncompliance penalty of $50/mwh provides a good example in this regard, and the result has been that utilities have complied, and the goals of the program were

[3] Bolinger, Mark, Wiser, Ryan, and Golove, William. Quantifying the Value that Wind Power Provides as a Hedge Against Volatile Natural Gas Prices. LBNL-50484. June 2002.
[4] [4] Wiser et al, at 25-29.

met on time. The commission should not set a compliance penalty that is designed to double as an alternative compliance mechanism. Compliance penalties should not be recoverable in the rate base. Doing so could result in consumers paying a premium for the same energy we could get today, without receiving the reliability, cost or environmental benefits expected as a result of the investment in renewable power.

Illinois PIRG urges the commission to benefit from the experience of these states, and incorporate these design elements into the Illinois renewable energy standard, and set a course toward successful implementation of the Governor's goals. We look forward to working with you in this endeavor.

With Best Regards,

Rebecca Stanfield
Director